



Attachment 2

Andrew Junkin, CFA, CAIA
Managing Director & Principal

August 29, 2011

Dr. George Diehr
Chair of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Affiliate Investment Programs Annual Review

Dear Dr. Diehr:

You requested Wilshire's opinion with respect to Staff's Annual Review of the Affiliate Investment Programs, which includes the Supplemental Income Plans, the Affiliate Funds, and the Member Home Loan Program.

Recommendation

Wilshire recommends that the Investment Committee continue to support the various Programs that fall under the auspices of the Affiliate Investment Programs. Specifically, Wilshire recommends that the contracts for The Boston Company (domestic SMID Growth and Value), PIMCO (short duration bond), AllianceBernstein (domestic large cap value), Turner Investment Partners (domestic large cap growth), and Pyramis Global Advisors (international equity)¹ be renewed.

Additionally, Wilshire recommends that the Investment Committee approve the interim asset allocation targets Staff has proposed for the various Affiliate Funds.

Background

As we noted in our 2010 letter, most of the investment options in the 457 Plan became available over the last few years. We believe that the performance records of the

¹ Wilshire's Code of Conduct requires us to disclose which of the above firms are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for the licensing of analytical software used in investment management. Wilshire's consulting division has no business relationship with them. This disclosure has been delivered under separate cover.

underlying investment managers are long enough to be meaningful and the managers' abilities to perform in a variety of economic and market conditions can be judged.

The internally managed portfolios are performing in line with expectations. The performance of the external managers is somewhat mixed, with some managers meeting expectations while others have lagged. Wilshire, working with Staff, has begun a full overview of the structure of the program and the manager lineup and will make appropriate recommendations in the next several months. However, while this process is underway, we recommend that the Investment Committee approve a one-year extension of all of the external managers' contracts. While these renewals are for a one year period, CalPERS has the right to terminate any of the external providers upon written notice, should the need arise.

From an investment perspective, we believe that the structure of the fund lineup is appropriate and offers participants a broad range of choices for investing their assets. Comparing the Supplemental Income Plan's investment options to those offered by other DC plans reveals few holes in the fund line up. As we noted in our 2010 review, we believe that there are potentially new strategies that CalPERS may want to add to the lineup to complement the existing structure. Again, Wilshire is working with Staff on this subject as we review the overall structure and fund lineup.

Over the past several months, the Investment Committee has approved asset allocations for the Affiliate Funds. While most of the funds will transition to their respective revised target asset allocations effective October 1, Staff is proposing that the Long Term Care Fund and the CERBT Fund 1 transition over longer periods of time. This is largely due to the imbedded high yield in the fixed income portfolios, which will be liquidated as market conditions allow.

Staff continues to improve the Affiliate Investment Programs, including enhanced education about the Affiliate Investment Programs and the underlying investment options, further reduction in participant fees, and improved customer service for both employers and participants. These enhancements are noteworthy and help CalPERS remain competitive in the marketplace.

Conclusion

Wilshire recommends that the Investment Committee renew the contracts of the investment managers and continue to support the Affiliate Investment Programs as an important part of CalPERS' members' total financial package. Wilshire also recommends that the Investment Committee adopt the interim asset allocation target that Staff has proposed for the Affiliate Funds. Wilshire will continue to review the structure and fund line up of the Affiliate Funds and the Supplemental Income Program through the current project with Staff, and will make any necessary recommendations as a result of that study.



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Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read 'Ann J. Smith'.